

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Frankfort, Michigan	County Benzie
Fiscal Year End June 30, 2007	Opinion Date October 5, 2007	Date Audit Report Submitted to State December 18, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  4. ☒ ☐ The local unit has adopted a budget for all required funds.
  5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  11. ☐ ☒ The local unit is free of repeated comments from previous years.
  12. ☒ ☐ The audit opinion is UNQUALIFIED.
  13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI
			Zip 49788
Authorizing CPA Signature Kenneth A. Talsma		Printed Name Kenneth A. Talsma, CPA	
		License Number 1101024989	

**CITY OF FRANKFORT, MICHIGAN**

**BASIC FINANCIAL STATEMENTS**

June 30, 2007

**CITY OF FRANKFORT, MICHIGAN**

**ORGANIZATION**

**MEMBERS OF THE CITY COMMISSION**

MAYOR	DICK BAYER
MAYOR PRO-TEM	MYRA ELIAS
MEMBER	NORMA ELLIA
MEMBER	JOANN HOLWERDA
MEMBER	DICK JENKINS

**APPOINTED OFFICERS**

CITY SUPERINTENDENT	JOSHUA MILLS
CITY CLERK/TREASURER	KIMBERLY KIDDER
CHIEF OF POLICE	KEITH REDDER

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMAN, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor and Members  
of the City Council  
City of Frankfort, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Frankfort, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Frankfort's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Frankfort, Michigan as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2007 on our consideration of the City of Frankfort, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Frankfort, Michigan's basic financial statements. The combining nonmajor fund financial statements identified in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to basic financial statements taken as a whole.

The additional information regarding the Municipal Securities Disclosure Requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. The additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

October 5, 2007

## **Management's Discussion and Analysis**

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**Using this Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

**The City as a Whole**

The City's combined net assets increased 1.5% from a year ago increasing from \$4,458,433 to \$4,526,113. The governmental activities experienced a \$124,629 increase in net assets primarily due to outlays to construct a new fire hall. The business-type activities experienced an \$114,277 decrease in net assets, primarily as a result of current year depreciation expenses.

In a condensed format, the table below shows comparison of the net assets of the City of Frankfort.

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current Assets	\$ 336,516	\$ 501,891	\$ 542,400	\$ 655,353	\$ 878,916	\$ 1,157,244
Noncurrent Assets	<u>3,926,635</u>	<u>3,815,746</u>	<u>3,643,571</u>	<u>3,625,311</u>	<u>7,570,206</u>	<u>7,441,057</u>
Total Assets	<u>\$ 4,263,151</u>	<u>\$ 4,317,637</u>	<u>\$ 4,185,971</u>	<u>\$ 4,280,664</u>	<u>\$ 8,449,122</u>	<u>\$ 8,598,301</u>
Current Liabilities	\$ 159,667	\$ 187,089	\$ 102,936	\$ 92,662	\$ 262,603	\$ 279,751
Noncurrent Liabilities	<u>2,890,406</u>	<u>3,025,117</u>	<u>770,000</u>	<u>835,000</u>	<u>3,660,406</u>	<u>3,860,117</u>
Total Liabilities	<u>3,050,073</u>	<u>3,212,206</u>	<u>872,936</u>	<u>927,662</u>	<u>3,923,009</u>	<u>4,139,868</u>
Net Assets						
Invested in Capital Assets -						
Net of Related Debt	1,701,227	831,211	2,808,571	2,725,311	4,509,798	3,556,522
Restricted	19,626	5,808	319,652	315,590	339,278	321,398
Unrestricted	<u>(507,775)</u>	<u>268,412</u>	<u>184,812</u>	<u>312,101</u>	<u>(322,963)</u>	<u>580,513</u>
Total Net Assets	<u>\$ 1,213,078</u>	<u>\$ 1,105,431</u>	<u>\$ 3,313,035</u>	<u>\$ 3,353,002</u>	<u>\$ 4,526,113</u>	<u>\$ 4,458,433</u>

The current level of unrestricted net assets for our governmental activities stands at \$(507,775) or about 0% of expenditures. This is within the targeted range set by the City Council during its last budget process.

The following table shows the activities of the City.

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Program Revenues						
Charges for Services	\$ 353,743	\$ 218,562	\$ 1,075,407	\$ 1,047,738	\$ 1,429,150	\$ 1,266,300
Operating Grants	213,369	340,255	2,370	12,826	215,739	353,081
Capital Grants and Contributions	139,758	-	-	-	139,758	-
General Revenues						
Property Taxes	1,087,910	963,063	-	-	1,087,910	963,063
State-Shared Revenues	142,049	146,059	-	-	142,049	146,059
Federal, State, Local – General	14,299	30,778	-	-	14,299	30,778
Unrestricted Investment Earnings	<u>5,776</u>	<u>8,887</u>	<u>8,581</u>	<u>4,281</u>	<u>14,357</u>	<u>13,168</u>
Total Revenues	<u>1,956,904</u>	<u>1,707,604</u>	<u>1,086,358</u>	<u>1,064,845</u>	<u>3,043,262</u>	<u>2,772,449</u>
Program Expenses						
Legislative	1,975	2,284	-	-	1,975	2,284
General Government	628,285	565,863	-	-	628,285	565,863
Public Safety	493,865	523,987	-	-	493,865	523,987
Public Works	481,820	561,508	-	-	481,820	561,508
Recreation and Culture	186,424	150,558	-	-	186,424	150,558
Interest Expense – Unallocated	135,051	86,090	-	-	135,051	86,090
Other Expenses	46,828	4,701	-	-	46,828	4,701
Water *	-	-	218,917	-	218,917	-
Sewer	-	-	421,890	656,096	421,890	656,096
Marina	-	-	378,448	322,025	378,448	322,025
Garbage and Rubbish	<u>-</u>	<u>-</u>	<u>39,407</u>	<u>48,183</u>	<u>39,407</u>	<u>48,183</u>
Total Expenses	<u>1,974,248</u>	<u>1,894,991</u>	<u>1,058,662</u>	<u>1,026,304</u>	<u>3,032,910</u>	<u>2,921,295</u>
Change in Net Assets before Transfers	(17,344)	(187,387)	27,696	38,541	10,352	(148,846)
Transfers	<u>141,973</u>	<u>82,000</u>	<u>(141,973)</u>	<u>(82,000)</u>	<u>-</u>	<u>-</u>
Changes in Net Assets	<u>124,629</u>	<u>(105,387)</u>	<u>(114,277)</u>	<u>(43,459)</u>	<u>10,352</u>	<u>(148,846)</u>
Net Assets – Beginning	1,105,431	1,224,685	3,353,002	3,399,252	4,458,433	4,623,937
Residual Equity Transfer	(16,982)	-	16,982	-	-	-
Prior Period Adjustment	<u>-</u>	<u>(13,867)</u>	<u>57,328</u>	<u>(2,791)</u>	<u>57,328</u>	<u>(16,658)</u>
Net Assets – Beginning - Restated	<u>1,088,449</u>	<u>1,210,818</u>	<u>3,427,312</u>	<u>3,396,461</u>	<u>4,515,761</u>	<u>4,607,279</u>
Net Assets – Ending	<u>\$ 1,213,078</u>	<u>\$ 1,105,431</u>	<u>\$ 3,313,035</u>	<u>\$ 3,353,002</u>	<u>\$ 4,526,113</u>	<u>\$ 4,458,433</u>

\* Water and sewer were separated into two separate funds in fiscal 2007.

**Governmental Activities**

Revenue from property taxes increased 13% from the previous year increasing from \$963,063 to \$1,087,910. This is due to the fact that there was a full years millage for the City Hall in fiscal 2007.

Expenses increased by \$79,257. This increase was primarily due to inflation.

**Business-Type Activities**

The City's total business-type revenues increased by approximately \$21,513, primarily due to marina, water and sewer revenues.

Expenses increased by about \$32,358 during the year. The most significant increases were plant operation for the water and sewer fund and wages and benefits for the marina.

**The City's Funds**

Our analysis of the City's major funds begins on page 9, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2007 include the General Fund, Major Streets, Local Streets, Water, Sewer, and Marina Funds.

The General Fund pays for most of the City's governmental services. The most significant are Recreation & Culture and General Government, which incurred expense of approximately \$968,295 in 2007. These two services are mostly supported by property taxes, revenue sharing, and grants.

Major and Local Streets use Act 51 monies to maintain and construct the City's streets. In 2007, \$145,588 was received from the State of Michigan and \$149,801 was spent for the construction and maintenance of streets. Transfers of \$20,256 were received from the general fund to supplement state funds.

The Water and Sewer funds provide water and waste water service to nearly 936 customers in 2007. The funds generated \$686,459 in user fees and spent \$640,807 in operations.

The Marina fund provides docking and fuel sales to an average of 1,000 vessels a year. In 2007, the Marina generated \$353,188 in user fees and spent \$378,448 in operations. The increase in fuel costs increased revenues and expenses in 2007. Overall the Marina fund had a great year of operations.

The Marina filled 34 seasonal slips and 1,000 transient slips in 2007. Many repeat customers and many new customers from Grand Haven, Chicago, and Wisconsin. Over one half of the seasonal slips have already been reserved for next season.

**General Fund Budgetary Highlights**

Over the course of the year, the City board amended the budget to take into account events during the year. There were no significant changes to revenue during the year. The most significant variance relating to expenditures was under public safety, which exceeded budget by \$8,152. This variance occurred because of the retirement of the Police Sargent which created a large payout of accrued sick and vacation time. Overall, the General Fund's fund balance decreased from \$279,019 a year ago to 206,647 at June 30, 2007.

**Capital Asset and Debt Administration**

At the end of 2007, the City had \$7,570,206 invested in a broad range of capital assets, including Water and Sewer System, Marina, Building and Improvements, Machinery and Equipment, and Land.

The City reduced its bond debt load by \$187,249 in principal payments in fiscal year 2007, ending with a bond debt balance of \$3,685,408.

**Economic Factors and Next Year's Budgets and Rates**

The City is in a budget battle from year to year. Normally, the cap on the growth rate under the Headlee Amendment, the voters reluctance to adjust or augment taxes for general operation, and the corresponding double digit growth rates in health and liability insurance have put significant limitations on budget flexibility. There are looming indications from the State that further cuts will occur in State Revenue Sharing and possibly other State funded areas. This could put increased pressure on already tight budget projections. We are pleased to end the current year with healthy fund balances in all but one major fund, but are realistic in projecting revenue from fines and fees for current and future budgets in order that revenue expectations and corresponding expenses are not inflated.

**Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the City.

## **Basic Financial Statements**

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	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Totals
<b>ASSETS:</b>			
Cash & Investments - Unrestricted	\$ 120,623	\$ 151,524	\$ 272,147
- Restricted	89,927	308,091	398,018
Accounts Receivable	-	73,285	73,285
Due from Governmental Units	113,202	-	113,202
Inventories	-	9,477	9,477
Other Assets	12,764	23	12,787
Capital Assets (Net of Accumulated Depreciation)	3,926,635	3,643,571	7,570,206
<b>TOTAL ASSETS</b>	<b>\$ 4,263,151</b>	<b>\$ 4,185,971</b>	<b>\$ 8,449,122</b>
<b>LIABILITIES:</b>			
Accounts Payable	\$ 10,674	\$ 23,121	\$ 33,795
Accrued Liabilities	27,338	9,629	36,967
Accrued Interest Payable	19,047	5,186	24,233
Due to Governmental Units	881	-	881
Compensated Absences	141,725	-	141,725
Installment Loans - Current	15,727	-	15,727
Installment Loans	237,681	-	237,681
Bonds Payable - Current	86,000	65,000	151,000
Bonds Payable	2,511,000	770,000	3,281,000
<b>TOTAL LIABILITIES</b>	<b>3,050,073</b>	<b>872,936</b>	<b>3,923,009</b>
<b>NET ASSETS:</b>			
Invested in Capital Assets (net of related debt)	1,701,227	2,808,571	4,509,798
Restricted for Special Projects	-	4,062	4,062
Restricted for Trust	19,626	-	19,626
Restricted for Debt	-	315,590	315,590
Unrestricted	(507,775)	184,812	(322,963)
<b>TOTAL NET ASSETS</b>	<b>\$ 1,213,078</b>	<b>\$ 3,313,035</b>	<b>\$ 4,526,113</b>

# City of Frankfort, Michigan

## Statement of Activities For the Year Ended June 30, 2007

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Grants	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>							
<b>Governmental Activities:</b>							
Legislative	\$ 1,975	\$ -	\$ -	\$ -	\$ (1,975)	\$ -	\$ (1,975)
General Government	628,285	78,613	8,700	-	(540,972)	-	(540,972)
Public Safety	493,865	118,615	46,081	-	(329,169)	-	(329,169)
Public Works	481,820	1,701	158,588	-	(321,531)	-	(321,531)
Recreation & Culture	186,424	154,814	-	139,758	108,148	-	108,148
Interest expense - Unallocated	135,051	-	-	-	(135,051)	-	(135,051)
Other Expenses	46,828	-	-	-	(46,828)	-	(46,828)
Total Governmental Activities	1,974,248	353,743	213,369	139,758	(1,267,378)	-	(1,267,378)
<b>Business-type activities:</b>							
Water	218,917	274,061	2,370	-	-	57,514	57,514
Sewer	421,890	412,398	-	-	-	(9,492)	(9,492)
Marina	378,448	353,188	-	-	-	(25,260)	(25,260)
Garbage & Rubbish	39,407	35,760	-	-	-	(3,647)	(3,647)
Total Business-type Activities	1,058,662	1,075,407	2,370	-	-	19,115	19,115
Total Primary Government	\$ 3,032,910	\$ 1,429,150	\$ 215,739	\$ 139,758	(1,267,378)	19,115	(1,248,263)
<b>General Revenues:</b>							
Taxes					1,087,910	-	1,087,910
State Revenue Sharing					142,049	-	142,049
Federal, State, & Local - General					14,299	-	14,299
Investment Earnings (Loss)					5,776	8,581	14,357
Transfers					141,973	(141,973)	-
Total General Revenues and Transfers					1,392,007	(133,392)	1,258,615
Change in Net Assets					124,629	(114,277)	10,352
Net Assets - Beginning					1,105,431	3,353,002	4,458,433
Residual Equity Transfer					(16,982)	16,982	-
Prior Period Adjustment					-	57,328	57,328
Net Assets - Beginning - Restated					1,088,449	3,427,312	4,515,761
Net Assets - Ending					\$ 1,213,078	\$ 3,313,035	\$ 4,526,113

See accompanying notes to financial statements.

# City of Frankfort, Michigan

## Balance Sheet Governmental Funds June 30, 2007

	General	Major Streets	Local Streets	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>					
Cash & Investments - Unrestricted	\$ 64,631	\$ 29,758	\$ 4,018	\$ 22,216	\$ 120,623
- Restricted	27,731	-	-	62,196	89,927
Due from Other Funds	54,324	-	-	-	54,324
Other Assets	10,154	-	1,227	1,383	12,764
Due from Governmental Units	82,750	14,798	5,987	9,498	113,033
<b>TOTAL ASSETS</b>	<b>\$ 239,590</b>	<b>\$ 44,556</b>	<b>\$ 11,232</b>	<b>\$ 95,293</b>	<b>\$ 390,671</b>
<b>LIABILITIES:</b>					
Due to Other Funds	\$ -	\$ 39,299	\$ 7,831	\$ 7,025	\$ 54,155
Accounts Payable	7,915	-	10	2,749	10,674
Accrued Liabilities	24,147	1,628	404	1,159	27,338
Due to Governmental Units	881	-	-	-	881
<b>TOTAL LIABILITIES</b>	<b>32,943</b>	<b>40,927</b>	<b>8,245</b>	<b>10,933</b>	<b>93,048</b>
<b>FUND BALANCES:</b>					
Reserved for Trust	-	-	-	19,626	19,626
Unreserved					
Designated for Special Projects	206,647	3,629	2,987	-	213,263
Designated for Debt Service	-	-	-	56,153	56,153
Undesignated	-	-	-	8,581	8,581
<b>TOTAL FUND BALANCES</b>	<b>206,647</b>	<b>3,629</b>	<b>2,987</b>	<b>84,360</b>	<b>297,623</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 239,590</b>	<b>\$ 44,556</b>	<b>\$ 11,232</b>	<b>\$ 95,293</b>	
<b>Reconciliation to amounts reported for governmental activities in the statement of net assets:</b>					
Capital assets used by governmental activities					3,926,635
Long-term notes & leases payable for governmental activities					(2,850,408)
Compensated absences liability					(141,725)
Accrued interest expense					(19,047)
<b>Net assets of governmental activities</b>					<b>\$ 1,213,078</b>



**Statement of Changes in Revenues, Expenditures, and  
Changes in Fund Balance - Governmental Funds  
For the Year Ended June 30, 2007**

	General	Major Streets	Local Streets	Other Governmental Funds	Totals Governmental Funds
<b>REVENUES:</b>					
Taxes	\$ 924,851	\$ -	\$ -	\$ 163,059	\$ 1,087,910
Licenses & Permits	5,860	-	-	-	5,860
Federal Sources	71,063	-	-	39,581	110,644
State Sources	162,749	101,387	44,201	-	308,337
Local Sources	52,545	-	-	23,650	76,195
Charges for Services	47,482	-	-	117,592	165,074
Interest & Rentals	53,272	185	4	1,511	54,972
Other Revenue	142,336	192	192	5,192	147,912
<b>TOTAL REVENUES</b>	<b>1,460,158</b>	<b>101,764</b>	<b>44,397</b>	<b>350,585</b>	<b>1,956,904</b>
<b>EXPENDITURES:</b>					
Legislative	1,975	-	-	-	1,975
General Government	575,332	-	-	-	575,332
Public Safety	310,944	-	-	139,788	450,732
Public Works	287,281	88,135	61,666	-	437,082
Recreation & Cultural	392,963	-	-	20,824	413,787
Capital Outlay	-	-	-	104,149	104,149
Debt Service	56,672	-	-	218,164	274,836
<b>TOTAL EXPENDITURES</b>	<b>1,625,167</b>	<b>88,135</b>	<b>61,666</b>	<b>482,925</b>	<b>2,257,893</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(165,009)</b>	<b>13,629</b>	<b>(17,269)</b>	<b>(132,340)</b>	<b>(300,989)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating Transfers In	153,512	-	20,256	174,558	348,326
Operating Transfers Out	(60,875)	(10,000)	-	(135,478)	(206,353)
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>(72,372)</b>	<b>3,629</b>	<b>2,987</b>	<b>(93,260)</b>	<b>(159,016)</b>
<b>FUND BALANCES, JULY 1</b>	<b>279,019</b>	<b>-</b>	<b>-</b>	<b>194,602</b>	<b>473,621</b>
<b>ADJUSTMENTS TO FUND EQUITY:</b>					
Residual Equity Transfer	-	-	-	(16,982)	(16,982)
<b>FUND BALANCES, JUNE 30</b>	<b>\$ 206,647</b>	<b>\$ 3,629</b>	<b>\$ 2,987</b>	<b>\$ 84,360</b>	<b>\$ 297,623</b>

**Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Year Ended June 30, 2007**

Net changes in fund balances – total governmental funds \$ (159,016)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays \$343,555 exceeded depreciation expense (\$232,666). 110,889

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal repayments:			
Bond principal	\$	70,000	
Installment principal		52,249	
Lease principal		11,878	
			134,127

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	\$	32,971	
Accrued interest on bonds		5,658	
			38,629
Changes in net assets of governmental activities			\$ 124,629

# City of Frankfort, Michigan

## Statement of Net Assets Proprietary Funds June 30, 2007

	Enterprise Funds			Nonmajor Fund	
	Water	Sewer	Marina	Garbage & Rubbish	Totals
<b>ASSETS:</b>					
Cash & Investments - Unrestricted	\$ 31,887	\$ 31,888	\$ 74,320	\$ 13,429	\$ 151,524
- Restricted	154,688	153,403	-	-	308,091
Accounts Receivable	29,589	39,494	4,202	-	73,285
Inventories	-	-	9,337	140	9,477
Other Assets	-	-	-	23	23
Property, Plant & Equipment	2,787,426	1,599,625	1,745,651	-	6,132,702
Accumulated Depreciation	(747,977)	(677,852)	(1,063,302)	-	(2,489,131)
<b>TOTAL ASSETS</b>	<b>\$ 2,255,613</b>	<b>\$ 1,146,558</b>	<b>\$ 770,208</b>	<b>\$ 13,592</b>	<b>\$ 4,185,971</b>
<b>LIABILITIES:</b>					
Accounts Payable	\$ 1,773	\$ 17,530	\$ 3,818	\$ -	\$ 23,121
Accrued Liabilities	666	1,690	7,157	116	9,629
Accrued Interest Payable	3,907	836	443	-	5,186
Bonds Payable - Current	40,000	10,000	15,000	-	65,000
Bonds Payable	585,000	75,000	110,000	-	770,000
<b>TOTAL LIABILITIES</b>	<b>631,346</b>	<b>105,056</b>	<b>136,418</b>	<b>116</b>	<b>872,936</b>
<b>NET ASSETS:</b>					
Invested in Capital Assets (net of related debt)	1,414,449	836,773	557,349	-	2,808,571
Restricted for Debt	144,597	170,993	-	-	315,590
Restricted for Projects	2,031	2,031	-	-	4,062
Unrestricted	63,190	31,705	76,441	13,476	184,812
<b>TOTAL NET ASSETS</b>	<b>\$ 1,624,267</b>	<b>\$ 1,041,502</b>	<b>\$ 633,790</b>	<b>\$ 13,476</b>	<b>\$ 3,313,035</b>

# City of Frankfort, Michigan

## Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds For the Year Ended June 30, 2007

	Enterprise Funds			Nonmajor Fund	
	Water	Sewer	Marina	Garbage & Rubbish	Totals
<b>OPERATING REVENUES:</b>					
Charges for Services	\$ 246,733	\$ 411,894	\$ 349,743	\$ 35,760	\$ 1,044,130
Other Revenue	27,328	504	3,445	-	31,277
Total Operating Revenues	274,061	412,398	353,188	35,760	1,075,407
<b>OPERATING EXPENSES:</b>					
Employee Wages & Benefits	68,051	67,341	68,536	12,257	216,185
Plant Operation	16,836	273,587	-	-	290,423
Supplies	8,666	3,683	183,671	27,150	223,170
Repairs & Maintenance	18,900	12,262	17,394	-	48,556
Contracted Services	20,278	12,104	11,089	-	43,471
Insurance	3,313	5,078	2,206	-	10,597
Depreciation	65,078	39,272	45,309	-	149,659
Marina Operations	-	-	43,103	-	43,103
Other Expenses	1,919	3,056	1,660	-	6,635
Total Operating Expenses	203,041	416,383	372,968	39,407	1,031,799
<b>OPERATING INCOME (LOSS)</b>	71,020	(3,985)	(19,780)	(3,647)	43,608
<b>NON-OPERATING REVENUES (EXPENSES):</b>					
Interest Expense	(15,876)	(5,507)	(5,480)	-	(26,863)
Interest & Rentals	3,331	3,059	1,819	372	8,581
Federal Grants	2,370	-	-	-	2,370
Total Non-operating Revenues (Expenses)	(10,175)	(2,448)	(3,661)	372	(15,912)
Income before transfers	60,845	(6,433)	(23,441)	(3,275)	27,696
Operating Transfers Out	(43,051)	(23,922)	(60,000)	(15,000)	(141,973)
<b>CHANGE IN NET ASSETS</b>	17,794	(30,355)	(83,441)	(18,275)	(114,277)
NET ASSETS, JULY 1	1,559,002	1,045,018	717,231	31,751	3,353,002
<b>ADJUSTMENTS TO NET ASSETS:</b>					
Residual Equity Transfer	8,970	8,012	-	-	16,982
Prior Period Adjustment	38,501	18,827	-	-	57,328
<b>NET ASSETS, JUNE 30</b>	<u>\$ 1,624,267</u>	<u>\$ 1,041,502</u>	<u>\$ 633,790</u>	<u>\$ 13,476</u>	<u>\$ 3,313,035</u>

**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2007**

	Enterprise Funds			Nonmajor Fund	
	Water	Sewer	Marina	Garbage & Rubbish	Totals
<b>Cash Flows From Operating Activities:</b>					
Cash Received from Customers or Users	\$ 272,848	\$ 411,202	\$ 353,161	\$ 35,760	\$ 1,072,971
Cash Payments to Employees	(68,163)	(66,429)	(61,455)	(12,141)	(208,188)
Cash Payments to Vendors	(70,923)	(305,188)	(250,754)	(25,459)	(652,324)
<b>Net Cash Provided (Used) By Operating Activities</b>	<b>133,762</b>	<b>39,585</b>	<b>40,952</b>	<b>(1,840)</b>	<b>212,459</b>
<b>Cash Flows from Non-capital Financing Activities:</b>					
Residual Equity Transfer	8,970	8,012	-	-	16,982
Transfers (Out)	(43,051)	(23,922)	(60,000)	(15,000)	(141,973)
<b>Net Cash Provided (Used) for Non-capital Financing Activities</b>	<b>(34,081)</b>	<b>(15,910)</b>	<b>(60,000)</b>	<b>(15,000)</b>	<b>(124,991)</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>					
Debt Principal Payments	(40,000)	(10,000)	(15,000)	-	(65,000)
Debt Interest Payments	(16,125)	(5,605)	(5,480)	-	(27,210)
Federal Grants	2,370	-	-	-	2,370
Prior Period Adjustment	38,501	18,827	-	-	57,328
Purchase of Property and Equipment	(85,183)	(82,736)	-	-	(167,919)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(100,437)</b>	<b>(79,514)</b>	<b>(20,480)</b>	<b>-</b>	<b>(200,431)</b>
<b>Cash Flows From Investing Activities:</b>					
Interest Income	3,331	3,059	1,819	372	8,581
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>3,331</b>	<b>3,059</b>	<b>1,819</b>	<b>372</b>	<b>8,581</b>
Net Increase (Decrease) in Cash	2,575	(52,780)	(37,709)	(16,468)	(104,382)
Cash and Cash Equivalents at Beginning of Year	184,000	238,071	112,029	29,897	563,997
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 186,575</b>	<b>\$ 185,291</b>	<b>\$ 74,320</b>	<b>\$ 13,429</b>	<b>\$ 459,615</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>					
Operating Income	\$ 71,020	\$ (3,985)	\$ (19,780)	\$ (3,647)	\$ 43,608
Add Non-Cash Expenses:					
Depreciation	65,078	39,272	45,309	-	149,659
Changes in Assets and Liabilities:					
Decrease (Increase) in Assets:					
Receivables	(1,213)	(1,196)	(27)	-	(2,436)
Inventory	-	-	5,690	1,714	7,404
Other Assets	-	-	3,627	(23)	3,604
Increase (Decrease) in Liabilities:					
Due to Government Unit	-	-	(4,154)	-	(4,154)
Accounts Payable	(1,011)	4,582	3,206	-	6,777
Accrued Liabilities	(112)	912	7,081	116	7,997
<b>Net Cash Provided (Used) By Operating Activities</b>	<b>\$ 133,762</b>	<b>\$ 39,585</b>	<b>\$ 40,952</b>	<b>\$ (1,840)</b>	<b>\$ 212,459</b>

**Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2007**

	Agency Funds		
	County	District	
	School Tax	Library	Totals
<b>ASSETS:</b>			
Cash & Cash Equivalents:			
Unrestricted	\$ 903	\$ 339	\$ 1,242
 TOTAL ASSETS	 \$ 903	 \$ 339	 \$ 1,242
<b>LIABILITIES:</b>			
Due to Other Funds	\$ -	\$ 169	\$ 169
Due to Other Governmental Units	903	170	1,073
 TOTAL LIABILITIES	 \$ 903	 \$ 339	 \$ 1,242

## **Notes to Financial Statements**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The City of Frankfort was incorporated as a Home Rule City on March 11, 1935 under the authority granted by the Constitution and laws of the State of Michigan under the 1909 Public Act 279, as amended. The City operates under a charter adopted May 20, 1935 and is governed by an elected Mayor and Council. The City provides services to its residents in many areas including law enforcement, fire protection, community enrichment and development, refuse collection and human services.

**Reporting Entity**

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB No. 39; no other governmental organizations are considered to be part of the reporting entity for financial statement purposes. The criteria established by GASB Statement No. 14, as amended by GASB No. 39; for various governmental organizations to be included in the reporting entity's financial statement include legal separation, financial accountability and fiscal dependency.

**Jointly Governed Organization**

The City has formed a utilities authority with the Village of Elberta to own and operate a wastewater treatment plant that serves both communities. The Betsie Lake Utilities Authority (BLUA) is governed by a 5-member commission with representatives from each constituent municipality. The Authority is legally separate and not fiscally dependent on the City of Frankfort. It is therefore not a component of the City but rather a related organization. The Utility Authority, not being a part of the reporting entity, is audited under a separate contract; therefore it is not included in these financial statements. Complete financial statements can be obtained from the Betsie Lake Utility Authority, Frankfort, Michigan.

The City-County Airport Authority, an entity legally separate from the City, is governed by a five-member board. Two members are appointed from the County of Benzie; two members are appointed from the City of Frankfort; and the fifth member is appointed by the four members of the County and City.

For financial reporting purposes, the Authority is reported as a separate unit because the Authority can legally issue debt (although it has a letter of understanding with the City of Frankfort that no debt will be issued); levy tax revenue if desired; and adopt and amend its own budget. In the event of the Authority being dissolved, it will be reverted to the City of Frankfort. The Authority operates on a June 30 year end and is audited under a separate contract. Complete financial statements can be obtained from the County of Benzie, P.O. Box 377, 448 Court Place, Beulah, MI 49617.

**Basis of Presentation**

*Government-wide Statements:* The statement of net assets and the statement of activities display information about the primary government (the City). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the City's funds, including its fiduciary-funds. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services and sales, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

*General Fund.* This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*Major Streets.* The Major Street Fund is used to account for the repair, maintenance, and construction of the City's major streets.

*Local Streets.* The Local Street Fund is used to account for the repair, maintenance, and construction of the City's local streets.

The City reports the following major enterprise funds:

*Water.* This fund accounts for the operation, maintenance, and development of water utilities.

*Sewer.* This fund accounts for the operation, maintenance, and development of sewer utilities.

*Marina.* This fund accounts for the operation, maintenance and development of the Marina.

The City reports the following fund types:

Governmental Funds

*General Fund.* Described above.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

*Special Revenue Funds.* Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

*Debt Service Funds.* Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

*Permanent Funds.* The Tri Centennial Trust is the City's permanent fund. The principle portion of this fund must stay intact, but the interest earnings are used to provide for the trust's purpose.

*Enterprise Funds.* Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

*Agency Funds.* These funds account for monies held on behalf of other government units, employees, and retirement boards that use the City as a custodian.

**Measurement Focus, Basis of Accounting**

*Government-wide, Proprietary, and Fiduciary Fund Financial Statements.* The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include taxes, grants, entitlements, and donations. On an accrual basis, revenue from taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

All governmental and business-type activities and enterprise funds of the City follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

**Cash and Cash Equivalents**

The City considers cash and cash equivalents to be cash on hand and demand deposits and investments with a maturity of 90 days or less. Pooled investment income from all funds is allocated to each fund based on average cash balance. Deposits are recorded at cost.

**Interfund Receivables and Payables**

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

**Inventories**

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

**Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003 consist of the road network assets bridges, sidewalks, and storm sewers that were acquired or that received substantial improvements subsequent to July 1, 1980 and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. All assets with a cost of \$5,000 or more and useful life of one (1) year or more are capitalized.

# NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure - Sidewalks	10 – 30 years
- Roads	10 – 30 years
- Bridges	50
- Storm sewers	50
- Water & Sewer Systems	40
Buildings	30 – 50
Building improvements	15 – 20
Vehicles	2 – 15
Machinery	3 – 15
Office equipment	3 – 15
Computer equipment	3 – 15

## Budgetary Data

The City Clerk/Treasurer prepares and submits a proposed operating budget for the General Fund, Special Revenue Funds, Debt Service, and Capital Project Funds to the City Council for its review and consideration. The Council conducts a public hearing and subsequently adopts the operating budget. The Council approves all budget amendments. The budget is adopted at the activity level and is prepared on the modified accrual basis of accounting which is the same basis as the financial statements of the applicable funds. The budgets lapse at year-end.

## Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**NOTE 2 - CASH AND INVESTMENTS:**

	<u>Primary Government</u>	<u>Fiduciary Funds</u>
Cash and Investments:		
- Unrestricted	\$ 272,147	\$ 1,242
- Restricted	<u>398,018</u>	<u>-</u>
Total	<u>\$ 670,165</u>	<u>\$ 1,242</u>
Imprest	\$ 653	\$ -
CD's savings and checking	<u>669,512</u>	<u>1,242</u>
Total	<u>\$ 670,165</u>	<u>\$ 1,242</u>

Deposits:

These deposits are in various financial institutions located in Benzie County in varying amounts. All accounts are in the name of the City and specific funds. They are recorded in City records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

Cash and Investments – Restricted:

The following funds have restricted cash and investments for various purposes:

**Primary Government:**

<u>Fund Type/Fund</u>	<u>Purpose</u>	<u>Amount</u>
<b>General Fund:</b>		
	Compensated Absences	\$ 27,731
<b>Debt Service:</b>		
	Debt Service	56,153
<b>Water:</b>		
	Improvement-Water	69,582
	Emergency	7,965
	Water Meter	199
	Improvement-Water	74,911
	Water USDA	2,031

**NOTE 2 - CASH AND INVESTMENTS: (Continued)**

<u>Fund Type/Fund</u>	<u>Purpose</u>	<u>Amount</u>
<b>Sewer:</b>		
	Equipment Reserve	\$ 4,660
	Sewer Bond	21,554
	Improvement-Sewer	18,693
	Wellhead Projection	26,424
	Improvement Water	78,278
	Launch Ramp	1,346
	Sewer Bond	417
	Sewer USDA	2,031
<b>Tri-Centennial Trust:</b>		
	Trust Purposes	<u>6,043</u>
		<u>\$ 398,018</u>

**Investment and Deposit Risk**

*Interest rate risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* The City's investment policy does not have specific limits in excess of state law on investment credit risk. The City has no investments for which ratings are required.

*Custodial credit risk.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$606,765 of the City's bank balance of \$736,814 was exposed to credit risk because it was uninsured and uncollateralized.

**Statutory Authority**

Michigan law (Public Act 20 of 1943, as amended) authorizes the City of Frankfort to deposit and invest in one or more of the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.

**NOTE 2 - CASH AND INVESTMENTS: (Continued)**

- (c) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in a.
- (e) Bankers' acceptances of United States banks.
- (f) Obligations of this State or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- (g) Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- (h) Obligation described in a. through g. if purchased through an interlocal agreement under the urban corporation act of 1967, 1967 (EX Sess) PA 7, MCL 124.501 to 124.512.
- (i) Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- (j) The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

**NOTE 3 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:**

The City of Frankfort reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds, proprietary funds, and fiduciary funds.

Interfund balances at June 30, 2007 consisted of the following:

	DUE FROM			
	Major Streets	Local Streets	All Others	Total
DUE TO General Fund	\$ 39,299	\$ 7,831	\$ 7,194	\$ 54,324

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**NOTE 3 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS: (Continued)**

Interfund transfers for the year ended June 30, 2007 consisted of the following:

**Interfund Transfers**

		TRANSFERS (OUT)							
TRANSFERS IN		General Fund	Major Street Fund	Nonmajor Governmental Funds	Water Fund	Sewer Fund	Marina Fund	Garbage Fund	Total
	General Fund	\$ -	\$ -	\$ 11,539	\$ 43,051	\$ 23,922	\$ 60,000	\$ 15,000	\$ 153,512
	Local	10,256	10,000	-	-	-	-	-	20,256
	Nonmajor Governmental	50,619	-	123,939	-	-	-	-	174,558
	Total	\$ 60,875	\$ 10,000	\$ 135,478	\$ 43,051	\$ 23,922	\$ 60,000	\$ 15,000	\$ 348,326

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.



**NOTE 4 - CAPITAL ASSETS:**

Capital asset activity for the year ended June 30, 2007, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>				
<i>Capital assets not depreciated:</i>				
Land & land improvements	\$ 364,337	\$ -	\$ -	\$ 364,337
Construction in progress	<u>859,320</u>	<u>-</u>	<u>(859,320)</u>	<u>-</u>
Total assets not depreciated	<u>1,223,657</u>	<u>-</u>	<u>(859,320)</u>	<u>364,337</u>
<i>Capital assets being depreciated:</i>				
Land improvements	891,870	289,091	-	1,180,961
Buildings and improvements	1,987,478	908,641	-	2,896,119
Machinery and equipment	<u>1,470,934</u>	<u>5,143</u>	<u>-</u>	<u>1,476,077</u>
Total capital assets being depreciated	<u>4,350,282</u>	<u>1,202,875</u>	<u>-</u>	<u>5,553,157</u>
<i>Less accumulated depreciation for:</i>				
Land improvements	(175,413)	(40,284)	-	(215,697)
Buildings and improvements	(636,722)	(67,808)	-	(704,530)
Machinery and equipment	<u>(946,058)</u>	<u>(124,574)</u>	<u>-</u>	<u>(1,070,632)</u>
Total accumulated depreciation	<u>(1,758,193)</u>	<u>(232,666)</u>	<u>-</u>	<u>(1,990,859)</u>
Total capital assets being depreciated, net	<u>2,592,089</u>	<u>970,209</u>	<u>-</u>	<u>3,562,298</u>
Governmental activities capital assets, net	<u>\$ 3,815,746</u>	<u>\$ 970,209</u>	<u>\$ (859,320)</u>	<u>\$ 3,926,635</u>
<b>Business-type activities:</b>				
<i>Capital assets not depreciated:</i>				
Land	\$ 17,000	\$ -	\$ -	\$ 17,000
Construction in progress	<u>-</u>	<u>147,659</u>	<u>-</u>	<u>147,659</u>
Total capital assets not being depreciated	<u>17,000</u>	<u>147,659</u>	<u>-</u>	<u>164,659</u>
<i>Capital assets being depreciated:</i>				
Land improvements	5,000	-	-	5,000
Water system	2,637,100	20,260	-	2,657,360
Sewer system	1,418,482	-	-	1,418,482
Marina	1,606,839	-	-	1,606,839
Equipment	<u>280,362</u>	<u>-</u>	<u>-</u>	<u>280,362</u>
Total capital assets being depreciated	<u>5,947,783</u>	<u>20,260</u>	<u>-</u>	<u>5,968,043</u>

**NOTE 4 - CAPITAL ASSETS: (Continued)**

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Less accumulated depreciation for:</i>				
Land improvements	(250)	(250)	-	(500)
Water system	(648,395)	(62,419)	-	(710,814)
Sewer system	(564,540)	(32,326)	-	(596,866)
Marina	(937,770)	(40,172)	-	(977,942)
Equipment	(188,517)	(14,492)	-	(203,009)
Total accumulated depreciation	(2,339,472)	(149,659)	-	(2,489,131)
Total capital assets being depreciated, net	3,608,311	(129,399)	-	3,478,912
Business-type activities capital assets, net	\$ 3,625,311	\$ 18,260	\$ -	\$ 3,643,571

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 45,238
Public Safety	75,782
Public Works	90,102
Recreation and Culture	21,544
Total Governmental Activities	\$ 232,666

**NOTE 5 - LONG-TERM DEBT:**

General Long-Term Debt - The bonds payable reflected in the basic financial statements consist of general obligation notes incurred by the City of Frankfort. The City has pledged the general full faith and credit of the City for the payment of principal and interest on the bonds.

Changes in long-term debt during the twelve months ending June 30, 2007 are summarized as follows:

	Balance 07/01/06	Additions	Deductions	Balance 06/30/07	Due Within One Year
<b>Enterprise Funds:</b>					
2003 Marina Revenue Bonds maturing serially to 2013 in annual amounts ranging from \$10,000 to \$20,000 and bearing interest of 4.25%. Secured by revenues of the Marina.	\$ 140,000	\$ -	\$ 15,000	\$ 125,000	\$ 15,000

**NOTE 5 - LONG-TERM DEBT: (Continued)**

	Balance 07/01/06	Additions	Deductions	Balance 06/30/07	Due Within One Year
1993 Sewage Disposal System Revenue Bonds maturing serially to 2013 in annual amounts ranging from \$5,000 to \$15,000 and bearing interest from 2.9% to 5.9%. Secured by net revenues of sewer system and, if applicable, ad valorem tax levy.	95,000	-	10,000	85,000	10,000
1998 Water Supply System Revenue Bonds maturing serially to 2019 in annual amounts ranging from \$35,000 to \$55,000 and bearing interest of 2.50%. Secured by net revenues of the water system.	665,000	-	40,000	625,000	40,000
Total Enterprise Funds	900,000	-	65,000	835,000	65,000
<b>General Long-Term Debt:</b>					
Decorative Street Lighting Installment Purchase Agreement payable in monthly installments at an annual interest rate of 5.0%.	42,178	-	39,091	3,087	3,087
2004 General Obligation Unlimited Tax Bonds maturing serially to 2034 in annual amounts ranging from \$19,000 to \$63,000 at an interest rate of 4.375%.	1,047,000	-	20,000	1,027,000	21,000
1998 General Obligation Unlimited Tax Water Bonds maturing serially to 2019 in annual amounts ranging from \$35,000 to \$55,000 at an interest rate of 2.50%.	665,000	-	40,000	625,000	40,000
2006 Installment Loan Purchase Agreement for a Fire Truck through West Michigan National Bank & Trust.	158,498	-	13,158	145,340	12,640
2005 Installment Loan Purchase Agreement for Dump Truck through State Savings Bank.	104,981	-	-	104,981	-
2005 General Obligation Unlimited Tax Bonds, maturing serially to 2025 in annual amounts ranging from \$5,000 to 75,000 at an interest rate of 4.650%.	565,000	-	-	565,000	5,000

**NOTE 5 - LONG-TERM DEBT: (Continued)**

	Balance 07/01/06	Additions	Deductions	Balance 06/30/07	Due Within One Year
2005 Limited Tax Capital Improvement Bonds, maturing serially to 2020 in annual amounts from \$10,000 to \$40,000 at an interest rate of 4.500%	390,000	-	10,000	380,000	20,000
Accrued sick leave and vacation	174,696	-	32,971	141,725	-
Total General Long-Term Obligations	3,147,353	-	155,220	2,992,133	101,727
<b>TOTAL LONG TERM OBLIGATIONS</b>	<b>\$ 4,047,353</b>	<b>\$ -</b>	<b>\$ 220,220</b>	<b>\$ 3,827,133</b>	<b>\$ 166,727</b>

The annual principal and interest requirements for the years ending June 30, 2007 and after, excluding accrued compensated absences are as follows:

	Business-type Activities		Governmental Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
Fiscal:						
2008	\$ 65,000	\$ 25,134	\$ 101,727	\$ 114,813	\$ 166,727	\$ 139,947
2009	70,000	22,906	121,295	111,088	191,295	133,994
2010	75,000	20,322	126,966	106,389	201,966	126,711
2011	80,000	17,568	143,672	101,243	223,672	118,811
2012	80,000	14,708	150,400	95,567	230,400	110,275
2013-2017	300,000	38,773	750,348	388,459	1,050,348	427,232
2018-2022	165,000	6,189	648,000	243,487	813,000	249,676
2023-2027	-	-	419,000	136,388	419,000	136,388
2028-2032	-	-	266,000	62,782	266,000	62,782
2033-2034	-	-	123,000	8,137	123,000	8,137
<b>TOTALS</b>	<b>\$ 835,000</b>	<b>\$ 145,600</b>	<b>\$ 2,850,408</b>	<b>\$ 1,368,353</b>	<b>\$ 3,685,408</b>	<b>\$ 1,513,953</b>

Interest on expense of the business-type activities is included as a direct expense of water, sewer and marina operations. Interest expense of the governmental activities is unallocated.

**NOTE 6 - COMPENSATED ABSENCES:**

Accumulated unpaid vacation, sick leave and longevity for police and other City employees are recorded in the basic financial statements. Based upon union contracts and personnel policies, as of June 30, 2007, the liability totaled \$141,725.

Vacation is earned in varying amounts based on an employee's years of service. Accrued vacation for salaried and nonunion employees' leave is limited to the amount earned in the prior year, except by mutual agreement between the City and the employees. Employees of the City Police Department are allowed to carry over a maximum of 40 hours of vacation from one year to the next.

Sick leave is earned at a rate of 1 day per month of service and is limited to 120 days accumulation per employee.

**NOTE 7 - PROPERTY TAXES:**

City property taxes are attached as an enforceable lien on property as of December 31 of the prior year. Real property taxes not collected as of March 1 are transferred to Benzie County for collection, which advances the City 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Property taxes levied in July of each year are recognized as revenue in that year.

The taxable value of real and personal property located in the City at December 31, 2006 totaled \$66,957,061. The tax levy for that year was based on the following rates:

	Millage Rate Used
General Operating	13.2786
Water and Sewer Debt	.8400
City Hall	1.5997

**NOTE 8 - DEFINED BENEFIT PENSION PLAN:**

The City of Frankfort participates in a statewide government agent multiple-employer public pension plan which covers substantially all employees.

Plan Description

The City contributes to the Michigan Municipal Employees Retirement System, an agent multiple employer public employee retirement system that acts as a common investment and administrative agent for units of local government in Michigan. The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. All full-time employees become a member of the System on the first day of employment, and are completely vested after 10 years of service. Service retirement allowances are based upon percentages ranging from 1 to 2.5 percent of 3 to 5-year final average compensation depending on benefit program selected social security coverage, etc. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2006.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining unit and personnel policy, which requires employees to contribute to the plan. The City is required to contribute at an actuarially determined rate.

**NOTE 8 - DEFINED BENEFIT PENSION PLAN: (Continued)**

The contribution rate as a percentage of payroll at December 31, 2006 is as follows:

General - Employees	10.41%
General – Police	17.39%

Annual Pension Cost

During the fiscal year ended June 30, 2007, the City's contributions totaling \$100,034 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2006. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level of percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the members retirement to pay for this projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three year trend information as of December 31 follows:

	2004	2005	2006
Actuarial Value of Assets	\$ 1,471,778	\$ 1,541,927	\$ 1,633,928
Actuarial Accrued Liability	2,039,461	2,188,886	2,290,783
Unfunded AAL	567,683	646,959	656,855
Funded Ratio	72%	70%	71%
Covered Payroll	525,919	535,803	580,667
UAAL as a Percentage of Covered Payroll	108%	121%	113%

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 54,080	100%	\$ 0
2006	69,892	100%	0
2007	100,034	100%	0

**NOTE 9 - COMMITMENTS AND CONTINGENCIES:**

Grant Assistance - The City received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2007.

Bonds Payable - The City has pledged its full faith and credit for payment of principal and interest of the various bond issues of the Water and Sewer Fund. The general obligation bonds payable for the Water and Sewer Fund are recorded as liabilities in the Enterprise Fund.

Property Taxes - In accordance with an agreement, Benzie County annually purchases real property taxes and delinquent special assessments (included on the tax bills) which have not been paid as of March 1 from the City. The County has recourse against the City for amounts which remain unpaid.

Litigation - The City is involved in various lawsuits now pending. It is the opinion of the City and of its counsel that the outcome of the various lawsuits will not materially affect the operations or the financial position of the City. The amount of all legal costs relating to such actions are not currently determinable.

**NOTE 10 - RISK MANAGEMENT:**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The City joined together with other governments and created a public entity risk pool currently operating as a common risk management and insurance program. The government pays an annual premium to the pool for its automobile, property, general liability, and Worker's Compensation insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$250 for each insured event.

The City continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The City is unable to provide an estimate of the amounts of any potential additional assessments.

**NOTE 11 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS:**

Segment information for the year ended June 30, 2007, is as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Marina</u>
Nonoperating revenue (expense)	\$ (10,175)	\$ (2,448)	\$ (3,661)
Operating income (loss)	71,020	(3,985)	(19,780)
Changes in net assets	17,794	(30,355)	(83,441)
Operating revenues	274,061	412,398	353,188
Operating expenses	203,041	416,383	372,968
Operating transfers – net	(43,051)	(23,922)	(60,000)
Depreciation	65,078	39,272	45,309
Total assets	2,255,613	1,146,558	770,208
Current liabilities	46,346	30,056	26,418
Long-term debt payable	585,000	75,000	110,000
Beginning net assets	1,559,002	1,045,018	717,231
Ending net assets	1,624,267	1,041,502	633,790
Cash provided by:			
Operating activities	133,762	39,585	40,952
Noncapital financing	(34,081)	(15,910)	(60,000)
Capital financing	(100,437)	(79,514)	(20,480)
Investing	3,331	3,059	1,819
Beginning cash	184,000	238,071	112,029
Ending cash	186,575	185,291	74,320

**NOTE 12 - RELATED PARTIES:**

The Betsie Lake Utility Authority was created by the City of Frankfort and the Village of Elberta to provide water and sewer services for the two municipalities. The two units bill and collect charges to the public for the private use of the system. The Authority in turn bills the two municipalities for use and debt service fees.

**NOTE 13 - POST EMPLOYMENT BENEFITS:**

The City provides post-employment health care benefits to all retired employees and/or their spouse and life insurance benefits for one retiree only. The benefits are provided in accordance with the union agreement, which includes the provision that upon a retiree and/or spouse's eligibility for Medicare, the City agrees to pay for the supplemental health insurance coverage for both.

For all employees the City agrees to pay the premium for each employee and their spouse at time of retirement. Employees may elect to have coverage provided to children at the employee's expense.



**NOTE 13 - POST EMPLOYMENT BENEFITS: (Continued)**

In order for an employee to be eligible for health care benefits at retirement, the employee must retire from active service with the City at age 60 with 10 years of service for Division 1 (general) or at age 50 with 25 years of service for Division 2 (police).

During 2007, eleven retirees and/or spouses were eligible for the post-employment health care benefits at a cost of \$ 100,034 and four retirees were eligible for life insurance benefits at a cost of \$ 596. The City's policy is to finance these benefits on a pay-as-you-go- basis.

**NOTE 14 - PRIOR PERIOD ADJUSTMENT:**

During the fiscal year 2006, \$57,328 in expenses were not capitalized relating to the water and sewer USDA projects. To correct this problem, the fund equity of each of the following funds had to be adjusted by the amount indicated:

Water	\$ 38,501
Sewer	<u>18,827</u>
Total	<u>\$ 57,328</u>

**NOTE 15 – RESIDUAL EQUITY TRANSFER:**

During the fiscal year 2007, a residual equity transfer of \$16,982 was made from the Capital Projects Fund (USDA Water and Sewer) to the respective Enterprise Funds (Water and Sewer).

**NOTE 16 – SUBSEQUENT EVENTS:**

On July 6, 2007 the city incurred debt with Rural Development for water and sewer bonds in the amounts of \$711,000 and \$1,787,000 respectively.

## **Required Supplementary Information**

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**Required Supplemental Information  
Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 927,136	\$ 924,851	\$ 924,851	\$ -
Licenses & Permits	6,000	5,860	5,860	-
Federal Sources	-	82,800	71,063	(11,737)
State Sources	260,711	149,812	162,749	12,937
Local Sources	-	48,141	52,545	4,404
Charges for Services	42,955	49,656	47,482	(2,174)
Interest & Rentals	46,690	43,122	53,272	10,150
Other Revenue	143,825	126,674	142,336	15,662
<b>TOTAL REVENUES</b>	<b>1,427,317</b>	<b>1,430,916</b>	<b>1,460,158</b>	<b>29,242</b>
<b>EXPENDITURES:</b>				
Legislative:				
City Council	5,013	5,705	1,975	3,730
General Government:				
City Superintendent	128,650	132,118	133,672	(1,554)
Elections	3,365	2,768	2,767	1
City Assessor	19,786	19,764	19,763	1
City Clerk/Treasurer	136,637	133,445	135,297	(1,852)
Board of Review	360	356	356	-
City Hall	32,903	32,861	32,806	55
Other General Government	178,018	248,923	250,671	(1,748)
<b>Total General Government</b>	<b>499,719</b>	<b>570,235</b>	<b>575,332</b>	<b>(5,097)</b>
Public Safety:				
Police Department	283,185	302,792	310,944	(8,152)
<b>Total Public Safety</b>	<b>283,185</b>	<b>302,792</b>	<b>310,944</b>	<b>(8,152)</b>
Public Works:				
Highways & Streets	205,730	276,393	276,881	(488)
Sanitation	7,650	10,400	10,400	-
<b>Total Public Works</b>	<b>213,380</b>	<b>286,793</b>	<b>287,281</b>	<b>(488)</b>
Recreation & Cultural:				
Launch Ramp	30,401	40,442	40,673	(231)
Parks	110,139	348,715	352,290	(3,575)
<b>Total Recreation &amp; Cultural</b>	<b>140,540</b>	<b>389,157</b>	<b>392,963</b>	<b>(3,806)</b>
Debt Service	60,157	57,482	56,672	810
<b>TOTAL EXPENDITURES</b>	<b>1,201,994</b>	<b>1,612,164</b>	<b>1,625,167</b>	<b>(13,003)</b>

**Required Supplemental Information  
Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXCESS OF REVENUES OVER EXPENDITURES	225,323	(181,248)	(165,009)	16,239
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	156,011	153,512	(2,499)
Operating Transfers Out	(141,984)	(60,875)	(60,875)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 83,339</u>	<u>\$ (86,112)</u>	(72,372)	<u>\$ 13,740</u>
FUND BALANCE, JULY 1			<u>279,019</u>	
FUND BALANCE, JUNE 30			<u>\$ 206,647</u>	

**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Major Streets Fund**  
**Year Ended June 30, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 110,905	\$ 101,646	\$ 101,387	\$ (259)
Other Revenue	226	192	192	-
Interest & Rentals	-	185	185	-
<b>TOTAL REVENUES</b>	<b>111,131</b>	<b>102,023</b>	<b>101,764</b>	<b>(259)</b>
EXPENDITURES:				
Public Works	151,473	82,723	88,135	(5,412)
<b>TOTAL EXPENDITURES</b>	<b>151,473</b>	<b>82,723</b>	<b>88,135</b>	<b>(5,412)</b>
 EXCESS OF REVENUES OVER EXPENDITURES	 (40,342)	 19,300	 13,629	 (5,671)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	50,342	-	-	-
Operating Transfers Out	(10,000)	(10,000)	(10,000)	-
 EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	 \$ - <u>          </u>	 \$ 9,300 <u>          </u>	 3,629 <u>          </u>	 \$ (5,671) <u>          </u>
 FUND BALANCE, JULY 1			 <u>          </u> -	
 FUND BALANCE, JUNE 30			 <u>          </u> \$ 3,629 <u>          </u>	

**Required Supplemental Information  
Budgetary Comparison Schedule  
Local Streets Fund  
Year Ended June 30, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 47,771	\$ 44,268	\$ 44,201	\$ (67)
Other Revenue	226	192	192	-
Interest & Rentals	60	4	4	-
TOTAL REVENUES	48,057	44,464	44,397	(67)
EXPENDITURES:				
Public Works	99,080	64,720	61,666	3,054
TOTAL EXPENDITURES	99,080	64,720	61,666	3,054
EXCESS OF REVENUES OVER EXPENDITURES	(51,023)	(20,256)	(17,269)	2,987
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	51,023	20,256	20,256	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	2,987	\$ 2,987
FUND BALANCE, JULY 1			-	
FUND BALANCE, JUNE 30			\$ 2,987	

## **Other Supplementary Information**

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# City of Frankfort, Michigan

## Combining Balance Sheet Nonmajor Governmental Funds June 30, 2007

	Special Revenue Funds					Debt Service Funds		
	Recreation Center	Fire	First Responders	Portable Hydrant	Brownfield Redevelopment	1989 General Obligation Bonds	GO Bonds Water Improvement	Main Street Bonds
<b>ASSETS:</b>								
Cash & Investments - Unrestricted	\$ 8,580	\$ 12,855	\$ -	\$ -	\$ 781	\$ -	\$ -	\$ -
Cash & Investments - Restricted	-	-	-	-	-	-	6,498	6,633
Other Assets	-	1,208	175	-	-	-	-	-
Due from Governmental Units	-	9,498	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 8,580</u>	<u>\$ 23,561</u>	<u>\$ 175</u>	<u>\$ -</u>	<u>\$ 781</u>	<u>\$ -</u>	<u>\$ 6,498</u>	<u>\$ 6,633</u>
<b>LIABILITIES:</b>								
Due to Other Funds	\$ -	\$ 7,000	\$ 25	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	581	2,168	-	-	-	-	-	-
Accrued Liabilities	339	810	10	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<u>920</u>	<u>9,978</u>	<u>35</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES:</b>								
Reserved	-	13,583	-	-	-	-	-	-
Unreserved								
Designated for Debt Service	-	-	-	-	-	-	6,498	6,633
Undesignated	7,660	-	140	-	781	-	-	-
<b>TOTAL FUND BALANCES</b>	<u>7,660</u>	<u>13,583</u>	<u>140</u>	<u>-</u>	<u>781</u>	<u>-</u>	<u>6,498</u>	<u>6,633</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 8,580</u>	<u>\$ 23,561</u>	<u>\$ 175</u>	<u>\$ -</u>	<u>\$ 781</u>	<u>\$ -</u>	<u>\$ 6,498</u>	<u>\$ 6,633</u>



# City of Frankfort, Michigan

## Combining Balance Sheet Nonmajor Governmental Funds June 30, 2007

	Debt Service Funds			Capital Project Funds			Permanent Trust Funds	
	City Hall Building	Fire Hall LTGO Bonds	Fire Hall UTGO Bonds	Capital Improvement Bond	USDA Water & Sewer	Main Street Project	Tri Centennial Trust	Totals
<b>ASSETS:</b>								
Cash & Investments - Unrestricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,216
Cash & Investments - Restricted	42,837	10	175	-	-	-	6,043	62,196
Other Assets	-	-	-	-	-	-	-	1,383
Due from Governmental Units	-	-	-	-	-	-	-	9,498
<b>TOTAL ASSETS</b>	<u>\$ 42,837</u>	<u>\$ 10</u>	<u>\$ 175</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,043</u>	<u>\$ 95,293</u>
<b>LIABILITIES:</b>								
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,025
Accounts Payable	-	-	-	-	-	-	-	2,749
Accrued Liabilities	-	-	-	-	-	-	-	1,159
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,933</u>
<b>FUND BALANCES:</b>								
Reserved	-	-	-	-	-	-	6,043	19,626
Unreserved								
Designated for Debt Service	42,837	10	175	-	-	-	-	56,153
Undesignated	-	-	-	-	-	-	-	8,581
<b>TOTAL FUND BALANCES</b>	<u>42,837</u>	<u>10</u>	<u>175</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,043</u>	<u>84,360</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 42,837</u>	<u>\$ 10</u>	<u>\$ 175</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,043</u>	<u>\$ 95,293</u>

# City of Frankfort, Michigan

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds Year Ended June 30, 2007

	Special Revenue Funds					Debt Service Funds		
	Recreation Center	Fire	First Responders	Portable Hydrant	Brownfield Redevelopment	1989 General Obligation Bonds	GO Bonds Water Improvement	Main Street Bonds
<b>REVENUES:</b>								
Taxes	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 56,142	\$ -
Federal Sources	-	39,581	-	-	-	-	-	-
Local Sources	17,150	6,500	-	-	-	-	-	-
Charges for Services	8,079	103,793	5,720	-	-	-	-	-
Interest & Rentals	84	401	12	14	11	34	495	21
Other Revenue	3,171	2,021	-	-	-	-	-	-
<b>TOTAL REVENUES</b>	<b>28,484</b>	<b>152,296</b>	<b>5,732</b>	<b>14</b>	<b>11</b>	<b>34</b>	<b>56,637</b>	<b>21</b>
<b>EXPENDITURES:</b>								
Public Safety	-	122,627	17,161	-	-	-	-	-
Recreation & Cultural	20,824	-	-	-	-	-	-	-
Capital Outlay	-	39,696	-	-	-	-	-	-
Debt Service	-	20,000	-	-	-	-	56,125	-
<b>TOTAL EXPENDITURES</b>	<b>20,824</b>	<b>182,323</b>	<b>17,161</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>56,125</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>7,660</b>	<b>(30,027)</b>	<b>(11,429)</b>	<b>14</b>	<b>11</b>	<b>34</b>	<b>512</b>	<b>21</b>
<b>OTHER FINANCING SOURCES (USES):</b>								
Operating Transfers In	-	46,394	5,979	-	-	-	-	-
Operating Transfers Out	-	(82,277)	-	(1,754)	-	(3,972)	-	-
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>7,660</b>	<b>(65,910)</b>	<b>(5,450)</b>	<b>(1,740)</b>	<b>11</b>	<b>(3,938)</b>	<b>512</b>	<b>21</b>
<b>FUND BALANCES, JULY 1</b>	<b>-</b>	<b>79,493</b>	<b>5,590</b>	<b>1,740</b>	<b>770</b>	<b>3,938</b>	<b>5,986</b>	<b>6,612</b>
<b>ADJUSTMENTS TO FUND EQUITY:</b>								
Residual Equity Transfer	-	-	-	-	-	-	-	-
<b>FUND BALANCES, JUNE 30</b>	<b>\$ 7,660</b>	<b>\$ 13,583</b>	<b>\$ 140</b>	<b>\$ -</b>	<b>\$ 781</b>	<b>\$ -</b>	<b>\$ 6,498</b>	<b>\$ 6,633</b>

# City of Frankfort, Michigan

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds Year Ended June 30, 2007

	Capital Project Funds						Permanent Trust Funds	
	City Hall Building	Fire Hall LTGO Bonds	Fire Hall UTGO Bonds	Capital Improvement Bond	USDA Water & Sewer	Main Street Project	Tri Centennial Trust	Totals
REVENUES:								
Taxes	\$ 106,917	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 163,059
Federal Sources	-	-	-	-	-	-	-	39,581
Local Sources	-	-	-	-	-	-	-	23,650
Charges for Services	-	-	-	-	-	-	-	117,592
Interest & Rentals	-	20	90	9	-	85	235	1,511
Other Revenue	-	-	-	-	-	-	-	5,192
TOTAL REVENUES	106,917	20	90	9	-	85	235	350,585
EXPENDITURES:								
Public Safety	-	-	-	-	-	-	-	139,788
Recreation & Cultural	-	-	-	-	-	-	-	20,824
Capital Outlay	-	47,535	16,918	-	-	-	-	104,149
Debt Service	65,806	36,325	39,908	-	-	-	-	218,164
TOTAL EXPENDITURES	65,806	83,860	56,826	-	-	-	-	482,925
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	41,111	(83,840)	(56,736)	9	-	85	235	(132,340)
OTHER FINANCING SOURCES (USES):								
Operating Transfers In	-	71,835	50,350	-	-	-	-	174,558
Operating Transfers Out	(39,908)	-	-	(1,024)	-	(6,543)	-	(135,478)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	1,203	(12,005)	(6,386)	(1,015)	-	(6,458)	235	(93,260)
FUND BALANCES, JULY 1	41,634	12,015	6,561	1,015	16,982	6,458	5,808	194,602
ADJUSTMENTS TO FUND EQUITY:								
Residual Equity Transfer	-	-	-	-	(16,982)	-	-	(16,982)
FUND BALANCES, JUNE 30	\$ 42,837	\$ 10	\$ 175	\$ -	\$ -	\$ -	\$ 6,043	\$ 84,360

## **Report on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

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**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and Members  
of the City Council  
City of Frankfort, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Frankfort, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City of Frankfort, Michigan's basic financial statements and have issued our report thereon, dated October 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Frankfort, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies as items 07-1.

Honorable Mayor and Members  
of the City Council

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control over financial reporting. We consider the deficiencies described in 07-1 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Frankfort, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Frankfort, Michigan in a separate letter dated October 5, 2007.

This report is intended solely for the information and use of the Mayor, City Council, Management, federal awarding agencies, pass-through entities, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

October 5, 2007

Section II – Financial Statement Findings

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*Significant Deficiencies*

*Finding 07-1*

Specific Requirement: Establishment and maintenance of internal control over the financial reporting process as defined by Statement on Auditing Standards Number 112.

Criteria: Internal controls should be in place to provide reasonable assurance to the City that management reports financial statements necessary to monitor and report annual and interim financial activity without auditor intervention.

Condition: Personnel responsible for financial reporting are not monitoring and reporting interim or annual financial activity without auditor intervention.

Effect: The effect of this condition places a reliance on the independent auditor as part of the City's internal controls over financial reporting.

Cause: Unknown.

Recommendation: The City should review and implement the necessary education and procedural activities to monitor and report annual financial activity.

Planned Corrective Action: As a result of the limited funding, the City does not have resources to fund this process. We intend to re-evaluate once funding becomes available for the additional reporting and monitoring.

- Contact Person(s) Responsible for Correction:  
Kim Kidder, Treasurer/Clerk

## **Additional Information**

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**CITY OF FRANKFORT, MICHIGAN**

**ADDITIONAL INFORMATION**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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**INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION**

Honorable Mayor and Members  
of the City Council  
City of Frankfort, Michigan

Our report on our audit of the basic financial statements of the City of Frankfort, Michigan, as of and for the year ended June 30, 2007, appears on page 1. That audit was conducted for the purpose of forming opinions on the basic financial statements. The additional information listed on the following pages regarding the Municipal securities disclosure requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 is presented for purposes of additional analysis and is not a required part of the basic financial statements, and accordingly, we express no opinion on it.

*Anderson Tackman & Co. PLC*

**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

October 5, 2007

**NOTE 1 - DEBT ISSUES APPLICABLE TO SEC RULE 15c2-12 DISCLOSURES REQUIREMENTS:**

Debt issues of \$1,000,000 or more sold on or after July 3, 1995 are applicable to SEC rule 15c2-12 disclosure requirements. As of June 30, 2007, the City has the following debt issues which apply to SEC Rule 15c2-12. As of June 30, 1999 the City agreed to provide the following disclosures relating to the following debt issue of Betsie Lake Utility Authority which applies to SEC Rule 15c2-12.

1. \$2,025,000 Sewage Disposal System Revenue Refunding Bonds, Series 2000.

**NOTE 2 - TABLES:**

The following tables are included in the debt issues and are required to be updated annually to comply with the Municipal Securities disclosure requirements of the SEC Rule 15c2-12.

**A. Number of Sewer Customers by Water Classification:**

Fiscal Year Ended June 30	Residential	Commercial	Industrial	Governmental	Other	Total Number of Meters	Percent Change
2000	913	129	7	14	16	1,079	6.00
2001	725	109	8	14	74	930	14.00
2002	751	114	7	10	22	904	3.00
2003	751	111	9	12	22	905	0.11
2004	728	140	12	12	23	915	1.00
2005	732	141	12	14	23	922	0.76
2006	787	108	9	12	20	936	1.52
2007	786	108	9	12	20	935	0.11

Source: City of Frankfort

**B. Residential Sewage Disposal Service Rates:**

Fiscal Year Ended or Ending June 30	Monthly Ready-to-Serve Charge (1)	Charge Per 1,000 Gallons
2000	18.00	3.00
2001	18.00	3.00
2002	18.00	3.00
2003	18.00	3.00
2004	18.00	3.00
2005	18.00	3.00
2006	18.00	3.00
2007	18.00	3.00

(1) Commercial and industrial ready-to-serve charges are based on residential ready-to-serve charges multiplied by a monthly Residential Equivalent Unit ("REA") factor.

Source: City of Frankfort

NOTE 2 - TABLES: (Continued)

C. Daily Industrial Surcharges for Sewage Disposal Service:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Wastewater with BOD > 300 mg/l	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Wastewater with suspend solids > 300 mg/l	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Wastewater with COD > 450 mg/l	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Wastewater with phosphorous > 15 mg/l	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00

Source: City of Frankfort

D. Water Consumption as Billed by Meter Classification (1):

<u>Fiscal Year Ended June 30</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Municipalities</u>	<u>Other</u>	<u>Total</u>	<u>Percent Change</u>
2001	50,420,845	15,242,996	5,420,360	1,433,970	2,812,338	75,330,509	12.00
2002	40,489,052	19,648,287	3,451,600	1,277,320	2,443,530	67,309,789	11.00
2003	38,091,207	17,870,633	2,707,556	2,901,570	1,353,425	62,924,391	(6.50)
2004	35,741,251	18,145,503	1,588,833	832,080	1,367,215	57,674,882	(8.34)
2005	41,105,917	14,425,720	1,642,910	1,607,143	1,305,199	60,086,889	4.18
2006	41,719,068	14,932,207	1,628,589	2,227,316	2,167,526	62,675,006	4.30
2007	34,438,384	14,709,045	1,286,170	2,165,043	2,329,632	54,928,274	(12.36)

(1) In gallons.

Source: City of Frankfort



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**MEMBER MACPA**

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**MICHIGAN & WISCONSIN**

**REPORT TO MANAGEMENT**

To the Honorable Mayor  
and City Commission  
City of Frankfort, Michigan

We have audited the basic financial statements of the City of Frankfort, Michigan for the year ended June 30, 2007, and have issued our report thereon dated October 5, 2007. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Frankfort. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Frankfort's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our test was not to provide an opinion on compliance with such provisions.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Frankfort are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the City of Frankfort during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that the future events affecting them may differ significantly from those expected.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Frankfort's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of Frankfort, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Frankfort's financial reporting process.

### **Disagreement with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultation with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City of Frankfort's financial statements or a determination of the type of auditors' opinion to be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Frankfort's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in the performance of our audit.

### **Comments and Recommendations**

#### **Enterprise Fixed Assets (Prior Year)**

Fixed asset purchases for the enterprise funds were recorded as capital outlay expenses during fiscal 2001, 2002, 2003, 2005, 2006, and 2007. Fixed asset purchases for the enterprise funds should be recorded in the applicable fixed asset account in the general ledger to comply with U.S. generally accepted accounting principles.

#### **General Fixed Assets (Prior Year)**

A fixed asset listing at the time of audit had not been completed, though staff had accumulated new-tagged assets and support documentation. The fixed asset listing should be updated to reflect these assets as well as deletions found during the audit.

#### **General Ledger (Prior Year)**

Accounts receivables and payables needed to be reconciled at year end. We recommend that management reconcile all accounts to supporting information periodically.

#### **Clearing Funds (Prior Year)**

The City has two clearing funds, accounts payable, and payroll. The funds by their definition should only act as means of paying bills and payroll. The funds should not maintain any surplus or deficit cash. At year end, the accounts payable fund has surplus cash and the payroll fund has deficit cash. We recommend that this issue be further researched to ensure that the funds are operating as intended.

#### **Personal Property Taxes (Prior Year)**

Currently, the City is not recording the amount of outstanding delinquent personal property taxes that are due to the City in the general ledger. It is recommended the City record the amount of outstanding delinquent personal property taxes in the general ledger of each fund that has a tax levy. The City should maintain subsidiary ledgers which show the amount of delinquent personal property taxes owed by each tax payer by individual tax year.

### **Cash (Prior Year)**

At year end, common cash per the bank was not completely reconciled to the common cash per the general ledger. We recommend that the bank balance be reconciled to the general ledger.

### **GASB Statement 45 – Accounting and Financial Reporting by Employers for Post-Employment Benefits other than Pensions**

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is being implemented in three phases, with the City of Frankfort, Michigan being required to implement the Statement for the year ended June 30, 2010. GASB Statement 45 is going to impact the future accounting of post-employment health insurance costs as it relates to the amount the City will be required to pay for these benefits. Beginning in 2009, the City will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The City Commission should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

### **Conclusion**

This information is intended solely for the use of the Mayor, City Commission, and management of the City of Frankfort and is not intended to be and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

October 5, 2007